

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 STR-08 NSC-10 DRC-01

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R 140841Z NOV 73

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 9577

INFO AMCONSUL MEDAN

AMCONSUL SURABAYA

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E.O. 11652: N/A

TAGS: PDEV, EIND, ID

SUBJ: INVESTMENT BOARD CHIEF DESCRIBES NEW JOB-
ORIENTED INVESTMENT POLICY

REF: JAKARTA 10314

SUMMARY : IN INTERVIEW PUBLISHED IN DAILY KOMPAS

NOVEMBER 3, BARLI HALIM, HEAD OF GOI CAPITAL INVESTMENT
COORDINATING BOARD, ANNOUNCED THAT UNDER SECOND FIVE
YEAR PLAN BEGINNING 1974, GOI WILL GIVE PRIORITY TO
LABOR-INTENSIVE INVESTMENT IN ORDER TO HELP ABSORB THE
1.3 MILLION WORKES WHO ARE ADDED TO LABOR FORCE EACH
YEAR. HALIM SAID IF THERE IS CHOICE BETWEEN CAPITAL
OR LABOR-INTENSIVE INVESTMENT, LABOR-INTENSIVE APPROACH
WILL BE FAVORED, UNLESS THIS WOULD SACRIFICE
EFFICIENCY. HE ALSO NOTED THAT WHILE NEW POLICY WOULD
LIMIT FOREIGN INVESTMENT WHICH IS USUALLY MORE
CAPITAL-INTENSIVE IN SOME FIELDS, GOI WILL CONTINUE TO
SEEK FOREIGN INVESTMENT IN SOME CAPITAL-INTENSIVE
HIGH TECHNOLOGY FIELDS SUCH AS STEEL AND PETROCHEMICALS.

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END SUMMARY.

1. HALIM SAID THERE IS NO ACCURATE DATA ON NUMBER OF JOBS CREATED BY NEW INVESTMENT APPROVED TO DATE UNDER THE GOVERNMENT'S FOREIGN AND DOMESTIC INVESTMENT PROGRAMS. BUT HE ESTIMATED IT TAKES \$6,000 OF FOREIGN INVESTMENT TO CREATE ONE NEW JOB, COMPARED TO \$4,000 OF DOMESTIC INVESTMENT. USING THESE CAPITAL LABOR RATIOS, THE APPROXIMATELY \$2.56 BILLION IN FOREIGN INVESTMENT AND \$2.6 BILLION IN DOMESTIC INVESTMENT APPROVED SINCE 1966 CREATE, IN THEORY, SLIGHTLY OVER ONE MILLION NEW JOBS DIRECTLY, OR ABOUT A FIFTH OF THE NEW JOBS REQUIRED BY THE GROWTH OF THE LABOR FORCE SINCE 1966. HALIM COMMENTED, HOWEVER, THAT FOR EVERY JOB CREATED DIRECTLY BY NEW INVESTMENT, TWO OR THREE OTHERS ARE GENERATED BY IT IN RELATED ECONOMIC ACTIVITIES SUCH AS CONSTRUCTION AND TRANSPORTATION. HE ADMITTED, HOWEVER, THAT ONLY 30-40 PERCENT OF THE FOREIGN AND DOMESTIC INVESTMENT APPROVED SINCE 1966 HAS ACTUALLY BEEN INVESTED, DUE TO DELAYS IN IMPLEMENTATION.

2. HALIM ALSO OBSERVED THAT THIS YEAR, FOR THE FIRST TIME, TOTAL POST-1966 DOMESTIC INVESTMENT APPROVED BY THE INVESTMENT BOARD EXCEEDS FOREIGN INVESTMENT. HE PREDICTED THAT MORE RAPID GROWTH RATE IN THE DOMESTIC SECTOR WOULD CONTINUE. AS EXAMPLE OF RAPID GROWTH OF DOMESTIC INVESTMENT, HE CITED THE ADDITION OF APPROXIMATELY \$800 MILLION IN DOMESTIC INVESTMENT DURING FIRST NINE MONTHS OF 1973, COMPARED TO APPROXIMATELY \$200 MILLION OF NEW FOREIGN INVESTMENT DURING THIS PERIOD.

3. COMMENT : PRESCRIPTION FOR MORE LABOR-INTENSIVE INDUSTRY AS ONE SOLUTION FOR INDONESIA'S SERIOUS EMPLOYMENT PROBLEM IS SOUND IN PRINCIPLE. IT IS NOT YET CLEAR HOW THIS WILL BE TRANSLATED INTO A WORKING POLICY, BUT IT IS ENCOURAGING THAT THIS JOB-ORIENTED APPROACH TO INVESTMENT IS NOW RECEIVING MORE ATTENTION.

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